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Message Text

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INFO OCT-01 EUR-12 EA-12 ISO-00 AID-05 CIAE-00 COME-00
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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 /117 W
----------093495 071005Z /23
P 070927Z JUN 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 8582
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JUNE 1-6

1. SUMMARY: GNP UP 2.4 PCT IN JAN-MARCH QUARTER. ECONOMIC CABINET MINISTERS MEETING SCHEDULED FOR POST-DIET, PRE-SUMMIT REVIEW OF TRENDS AND POLICY. BOJ TAKES STEPS TO LIBERALIZE INTEREST RATE STRUCTURE FURTHER. MONEY SUPPLY SPURTS IN APRIL. CONSTRUCTION ORDERS STRONG IN APRIL. SAVINGS RATE RECEDES A LITTLE IN FIRST QUARTER. MAY CAR SALES SLIP AFTER STRONG FIRST QUARTER. OFFICIAL RESERVES UP $183 MIL IN MAY. SMALL ADJUSTMENTS OF INTEREST RATES IN MAY. END SUMMARY.

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2. GNP FIGURES (S.A.) RELEASED THIS WEEK SHOW FIRST QUARTER 1978 REAL GROWTH AT 2.4 PCT (10 PCT SAAR) AND 5.4 PCT FOR FULL JFY 77 (TOKYO 9969, 10176). MAJOR CONTRIBU-TORS TO THE STRONG FIRST QUARTER RESULTS WERE INCREASES IN CONSUMPTION (2.1 PCT), HOUSING (6.9 PCT) AND NET EXPORTS (7.5 PCT). DOMESTIC FINAL DEMAND WAS UP A FULL 2.2 PCT AS INVENTORY ACCUMULATION SLOWED, PARTLY COMPEN-

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SATING FOR THE STRONG CONTRIBUTION OF NET EXPORTS.

3. A MEETING OF THE CABINET MINISTERS CONCERNED WITH ECONOMIC AFFAIRS IS EXPECTED FOLLOWING ADJOURNMENT OF THE REGULAR DIET SESSION ON JUNE 16. THE MEETING IS EXPECTED TO REVIEW DOMESTIC ECONOMIC POLICY AND INTERNATIONAL TRADE RELATIONS PRIOR TO THE SUMMIT. THE ADVISABILITY OF FURTHER ECONOMIC STIMULATION IS EXPECTED TO BE DISCUSSED. HOWEVER, FOLLOWING RELEASE OF THE FIRST QUARTER GNP FIGURES, THE POSSIBILITY OF A PRE-SUMMIT DECISION ON A SUPPLEMENTAL BUDGET APPEARS MORE REMOTE. ECONOMIC PLANNING AGENCY DIRECTOR GENERAL MIYAZAWA REPORTEDLY TOLD THE PRESS SUCH A MAJOR QUESTION WAS UNLIKELY TO COME UP AT THE JUNE MEETING. ALSO BANK OF JAPAN (BOJ) GOVERNOR MORINAGA REPORTEDLY TOLD THE PRESS THE PROSPECTS OF HITTING THE 7 PCT GROWTH TARGET NOW LOOK BETTER. THE MINISTRY OF FINANCE (MOF) IS REPORTED TO BE DEBUNKING THE NEED FOR AN EARLY SUPPLEMENTAL, SAYING THAT CURRENT TRENDS ARE STRONG ENOUGH TO SUSTAIN GROWTH THROUGH THE SECOND HALF OF JFY 78. MITI MINISTER KOMOTO AND THE CONSTRUCTION MINISTRY, HOWEVER, ARE REPORTED TO STILL BE ADVOCATES OF AN EARLY SUPPLEMENTAL BUDGET.

4. IN A FURTHER MOVE TO LIBERALIZE THE INTEREST RATE STRUCTURE IN JAPAN, BANK OF JAPAN AND MAJOR FINANCIAL INSTITUTIONS HAVE AGREED TO LOOSEN RESTRICTIONS ON INTEREST
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RATES IN THE CALL AND BILL MARKETS EFFECTIVE JUNE 5. UNDER THE NEW ARRANGEMENTS, BILLS WILL BE ALLOWED TO BE TRADED AT FREELY DETERMINED INTEREST RATES ONE MONTH AFTER THEY ARE INITIALLY ISSUED. TRADING WITHIN THE FIRST MONTH WILL BE PERMITTED BUT ONLY AT THE BILL DISCOUNT RATE; NOW SET AT 4.75 PCT. PREVIOUS PRACTICE WAS THAT BILLS WERE SOLD AT THE BOJ-CONTROLLED BILL DISCOUNT RATE. PURCHASER HAD TO HOLD THEM UNTIL MATURITY. CALL RATES ARE ALSO TO BE LIBERALIZED. CALL RATES HAVE BEEN NOMINALLY FIXED BY THE BOJ BUT PRESS REPORTS INDICATE THAT PREMIUM RATES HAVE APPEARED AND THE BOJ WILL IN THE FUTURE GIVE TACIT ASSENT TO THESE MARKET RATES. THIS LATEST MOVE WAS TAKEN IN RECOGNITION OF THE GROWING DISTORTION BETWEEN THE CALL AND BILL MARKETS AND THE OTHER MAJOR SHORT-TERM MONEY MARKET, THENGENXCKI -- OR REPURCHASE -- MARKET. YIELDS IN THE SHORT-TERM REPO MARKET HAVE BEEN LARGELY MARKET-DETERMINED AND RECENTLY HAVE BEEN REMAINING ABOUT 25 BASIC

PDINTS ABOVE COMPARABLE YIELDS IN THE BILL MARKET. THIS YIELD DIFFERENTIALN COMPARED WITH EXPANSION OF THE SOUPPLY OF

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GOVERNMENT SECURITIES OUTSTANDING AND GENERAL CORPORATE LIQUIDITY HAS LED TO A RAPID EXPANSION OF THE GENSAKI MARKET. AS REPORTED EARLIER (TOKYO 8863) THE MINISTRY OF FINANCE ANNOUNCED IT WOULD BEGIN IN JULY ISSUING MEDIUM-TERM GOVT BONDS AT RATES DETERMINED BY AUCTION. PREVIOUSLY THE YIELDS TO SUBSCRIBERS ON NEW GOVT ISSUES HAD BEEN ADMINISTRATIVELY SET BY THE MOF WITH FINANCIAL INSTITUTIONS REQUIRED TO TAKE UP NEW ISSUES ACCORDING TO A QUOTA FORMULA.

5. GROWTH IN MONEY SUPPLY, S.A., ACCELERATED RAPIDLY IN APRIL. NARROWLY DEFINED MONEY, M-1, ROSE 1.3 PCT IN APRIL ON TOP OF THE 1.7 PCT ADVANCE IN MARCH. BROADLY DEFINED MONEY, M-2, EXPANDED RAPIDLY BY 2.2 PCT, THE
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PA-02 /117 W
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LARGEST MONTHLY INCREASE IN GIVE YEARS. BOJ EXPLAINED THAT APRIL M-2 MAY HAVE BEEN SOMEWHAT DISTORTED BY HOUSEHOLD AND BUSINESS EFFORTS TO MAXIMIZE INTEREST EARNINGS BEFORE THE SAVING RATE CUTS IMPLEMENTED IN APRIL BY MAKING NEW TIME DEPOSITS FINANCED BY CREDITS SECURED BY OLD DEPOSITS MATURING SOON. ALSO THE FIGURES ARE SUBJECT TO DISTORTION SINCE THE END OF THE MONTH OCCURRED ON A WEEKEND. DAILY AVERAGE FIGURE FOR M-2 SHOWS A 1.5 PCT INCREASE FOR THE MONTH. GROWTH IN BANK LOANS AND DISCOUNTS ALSO QUICKENED IN APRIL, UP 1.2 PCT ON TOP OF THE 1.1 PCT GAIN IN MARCH.

MONEY AND CREDIT, END OF MONTH (S.A.; IN BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN);
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-	M-1	M-2	M-3	BANK LOANS AND DISCOUNTS
-	(JEI 123)	(JEI 126)	(N/A/)	(JEI 133)
FEB	57,070	155,894	237,232	108,205
-	(0.3)	(0.9)	(0.9)	(0.8)
MARCH	58,060	157,458	240,266	109,379
-	(1.7)	(1.0)	(1.3)	(1.1)
APRIL	58,810	160,940	245,526	110,730
-	(1.3)	(2.2)	(2.2)	(1.2)

6. NEW CONSTRUCTION ORDERS, S.A., REBOUNDED SHARPLY IN APRIL, UP ABOUT 12 PCT OVER THE PRIOR MONTH'S LEVEL, AFTER DECLINING IN PRECEDING TWO MONTHS. ORDERS PLACED BY THE PRIVATE SECTOR ROSE BY NEARLY 15 PCT, MORE THAN OFFSETTING THE DECLINE IN MARCH. ORDERS PLACED BY GOVT AND PUBLIC AGENCIES, HOWEVER, DECLINED 3 PCT IN APRIL AFTER STRONG ADVANCES IN PRECEDING FOUR MONTHS.
NEW CONSTRUCTION ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN)

-	GOVT/PUBLIC (JEI 324)	PRIVATE (JEI 325)	TOTAL (JEI 323)
FEB	302.0 (10.7)	295.8 (4.2)	609.2 (-2.1)
MARCH	309.5 (2.5)	263.9 (-10.8)	585.9 (-3.8)
APRIL	299.9 (-3.1)	302.3 (14.6)	655.2 (11.8)

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7. NEW CAR REGISTRATIONS, S.A., DECLINED 2 PCT IN MAY FROM THE PRIOR MONTH'S LEVEL. ON YEAR-OVER-YEAR COMPARISON, HOWEVER, NEW CAR SALES QUICKENED, RECORDING A NEARLY 23 PCT INCREASE OVER THE YEAR-EARLIER SALES.

NEW CAR REGISTRATIONS, S.A.:

-	THOUSAND CARS	PCT CHANGE FROM PRIOR MONTH (NSA)	PCT CHANGE FROM PRIOR YEAR
MARCH	268.2	21.8	13.0
APRIL	243.9	MIN 9.0	11.4
MAY	239.0	MIN 2.0	22.7

8. MINISTRY OF FINANCE ANNOUNCED THAT JAPAN'S OFFICIAL INTERNATIONAL RESERVES ROSE $183 MIL IN MAY TO $27,709 MIL AT MONTH-END. THE MAY INCREASE WAS PRIMARILY ATTRIBUTABLE TO INTEREST EARNINGS OF THE RESERVES, ACCORDING TO PRESS REPORTS.

9. AVERAGE PROPENSITY TO SAVE OF WORKING HOUSEHOLDS, S.A., DECLINED IN MARCH TO 21.9 PCT OF DISPOSABLE INCOME FROM 24.1 PCT IN FEB. FOR THE JAN-MARCH QUARTER, AVERAGE PROPENSITY TO SAVE ALSO RECORDED A DECLINE AFTER ADVANCING IN THE PRECEDING TWO QUARTERS.

AVERAGE PROPENSITY TO SAVE, S.A.; PCT OF DISPOSABLE INCOME (JEI 363)

(1) RECENT MONTHS:		(RECENT QUARTERS)	(MONTHLY AVERAGE)
JAN	22.3	1977:APR-JUNE	22.0
FEB	24.1	JUL-SEP	22.1

MARCH	21.9	OCT-DEC	23.2

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- 1978:JAN-MAR 22.8

10. CALL MONEY RATE (UNCONDITIONAL) WAS LOWERED BY 0.125 PERCENTAGE POINTS, EFFECTIVE MAY 9, BUT THEN RAISED BY SAME 0.125 PERCENTAGE POINTS BACK TO 4.125 PERCENT PER ANNUM, EFFECTIVE MAY 24. AVERAGE CALL MONEY RATE (JEI 178) CONTINUED TO DECLINE IN MAY AND STOOD AT 4.060 PCT PER ANNUM AS COMPARED WITH 4.141 PCT IN APRIL.
BILL DISCOUNT RATE REMAINED UNCHANGED AT 4.5 PCT THROUGH-OUT MAY. (THIS MONTH, THE BILL DISCOUNT RATE WAS RAISED TO 4.75 PCT JUNE 1, AND CALL MONEY RATES WERE LOWERED 0.125 PCT ON JUNE 3 AND AGAIN JUNE 7, TO 3.875 PCT)

11. SECONDARY BOND MARKET SHOWS A MIXED PICTURE IN MAY.
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YIELDS ON GOVT BONDS AND INDUSTRIAL BONDS REBOUNDED IN MAY AFTER DECLINES IN PRECEDING TWO MONTHS WHILE TELEPHONE AND TELEGRAM BOND YIELDS DECLINED FOR THE SECOND CONSECUTIVE MONTH IN MAY.

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SECONDARY MARKET BOND YIELDS, END OF MONTH (ANNUAL RATE, IN PCT)

-	GOVT BONDS	TEL AND TEL BONDS	INDUSTRIAL BONDS
MARCH	6.038	6.643	7.088
APRIL	5.976	6.606	7.082
MAY	6.004	6.587	7.100

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